

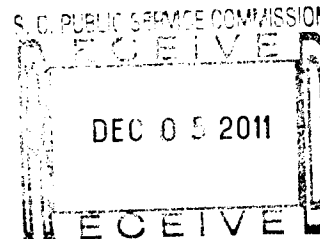
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December 2, 2011



Jocelyn Boyd
Chief Clerk & Administrator
South Carolina Public Service Commission
P. O. Box 11649
Columbia, SC 29211

Re: Kiawah Property Owners Group, Inc., Petition to Intervene
Application for Rate Increase of Kiawah Island Utility
PSC Docket No. 2011-317-W/S
YCR: 2589-20110772

Dear Ms. Boyd:

Pursuant to the Commission's request at the Hearing held on November 30, 2011 with regards to the above referenced matter enclosed please find the following revised pages of Ellen Blumenthal's November 16, 2011 pre-filed testimony

1. Page 19; and
2. Page 3 of Exhibit 2.

Should you have any questions, please do not hesitate to contact me.

With kind regards, I am

Sincerely,

Young Clement Rivers, LLP

Michael A. Molony

MAM/tro
Enclosure(s)

cc: G. Trenholm Walker, Esquire
Shannon Bowyer Hudson, Esq. (ORS)
Jeff Nelson, Esq. (ORS)
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Inventory Amounts be included in the rate base determination. Based on the Company's audited financial statements for 2010 and 2009, I recommend that \$302,632 be added to the Water System Rate Base, along with an allocation of Prepayments of \$22,546. In addition, I recommend that \$4,777 be added to the Sewer System Rate Base for Prepayments. These additions and the supporting calculations are shown on my **Exhibit 2 (EB-2)**.

MR. MOLONY: DO YOU AGREE WITH STAFF'S USE OF A 35% FEDERAL INCOME TAX RATE TO COMPUTE KIU'S FEDERAL INCOME TAX EXPENSE?

MS. BLUMENTHAL: No. The corporate federal income tax rates are graduated. Income is not taxed at 35% until a corporation has taxable income of at least \$18.33 million. The tax rate on taxable income of \$10 million is 34% as follows:

	Taxable Income	Rate	Tax
First	\$ 50,000	0.15	\$ 7,500
Next	25,000	0.25	6,250
Next	25,000	0.34	8,500
Next	235,000	0.39	91,650
Next	9,665,000	0.34	3,286,100
	<u>\$ 10,000,000</u>		<u>\$ 3,400,000</u>

The federal tax rate that should be applied to KIU's taxable income is 34%. ORS has overstated the combined water and sewer income tax expense by approximately \$20,000.

Kiawah Island Utilities, Inc.
Combined Water & Sewer Rate Base- Phase I

	Company		Kiawah Property Owners	
	Per Books 12/31/2010	Adjustments	Proposed 12/31/2011	As Adjusted
1 Plant in service	\$ 23,276,661	\$ 269,218	\$ 23,545,879	\$ 18,003,213
2 Accumulated Depreciation	(8,482,751)	(434,076)	(8,916,827)	(8,870,545)
3 CWIP	2,709	-	2,709	2,709
4 Net Plant	\$ 14,796,619	\$ (164,858)	\$ 14,631,761	\$ 9,135,377
5 Working Capital	482,070	18,725	500,795	500,795
6 Accumulated deferred income taxes				(909,413)
7 Unamortized Bal. of Rate Case Exp.	-	169,226	169,226	169,226
8 Unamortized Bal. of Extraord Exp.	-	24,603	24,603	24,603
9 Materials and Supplies				-
10 Water Inventory				302,632
11 Prepaid Expenses				27,324
12 Rate Base	\$ 15,278,689	\$ 47,696	\$ 15,326,385	\$ 9,250,543

(a) KITU response to KPOG DR 150

Additions to Rate Base

	Materials & Supplies (b)	Inventory (c)	Prepayments (d)
13 Balance Beginning-of-year (2010)	\$0.0	\$295,690	\$26,314
14 Balance End-of-year (2010)	\$0.0	\$309,574	\$28,333
Average	\$0.0	\$302,632	\$27,324

Allocation of Additions to Water and Sewer

	Water	Sewer	Total
Operating Expenses	\$3,306,159	\$700,503	\$4,006,662
Allocation	0.82517	0.17483	1.00000
Prepayments	\$22,546	\$4,777	\$27,324
Water Inventory	\$302,632		